

Message Text

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ACTION EB-08

INFO OCT-01 AF-08 ARA-06 EUR-12 EA-07 NEA-10 IO-13 ISO-00

L-03 FRB-03 OMB-01 ITC-01 SP-02 USIA-06 AGRE-00

AID-05 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 OIC-02

SIL-01 STR-04 TRSE-00 CIEP-01 CEA-01 ERDA-05 DODE-00

FPC-01 H-01 INT-05 NSC-05 PM-04 OES-06 SS-15 ACDA-07

FEA-01 /156 W

-----141727Z 035928 /44

R 141538Z FEB 77

FM AMEMBASSY VIENNA

TO SECSTATE WASHDC 0788

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY CAIRO

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY RANGOON

AMEMBASSY COTONOU

AMEMBASSY MAPUTO

AMEMBASSY SAN SALVADOR

USINT BAGHDAD

USMISSION GENEVA

USMISSION USUN

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMEMBASSY BEIRUT BY POUCH

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C O N F I D E N T I A L SECTION 1 OF 2 VIENNA 1169

E.O. 11652: GDS

TAGS: EAID, OPEC, UNCTAD, ENRG

SUBJECT: DISCUSSION WITH OPEC SPECIAL FUND DIRECTOR IBRAHIM

F. I. SHIHATA

REF: (A) GENEVA 627, (B) RANGOON 361, (C) CARACAS 1017

1. SUMMARY. OPEC SPECIAL FUND DIRECTOR GENERAL IBRAHIM SHIHATA DOES NOT EXPECT ANY FINAL AGREEMENT TO COME OUT OF MARCH NEGOTIATING CONFERENCE ON UNCTAD COMMON FUND. SUBJECT OF AN OPEC SPECIAL FUND CONTRIBUTION TO COMMON FUND TO BE CONSIDERED BY OPEC FINANCE MINISTERS IN VIENNA MEETING STARTING FEB. 28. MINISTERS ALSO TO APPROVE ADDITIONAL \$800 MILLION CONTRIBUTION TO SPECIAL FUND DECIDED ON BY OIL MINISTERS AT DOHA. SPECIAL FUND BALANCE OF PAYMENTS LOANS TO MOZAMBIQUE, BENIN, AND EL SAVADOR ARE TO BE SIGNED SHORTLY. THE SPECIAL FUND'S DEVELOPMENT PROJECT LENDING IS SCHEDULED TO BEGIN DURING FIRST HALF OF 1977. SHIHATA DOES NOT FORESEE AN EARLY END TO IMPASSE WHICH HAS CREATED THE TWO-TIER PETROLEUM PRICING SYSTEM. DETAILS OF E/C OFFICER'S FEB. 10 DISCUSSION WITH SHIHATA DESCRIBED BELOW. END SUMMARY.

2. UNCTAD COMMON FUND. SHIHATA STATED THAT MARCH NEGOTIATING CONFERENCE WAS PREMATURE AND COULD NOT HOPE TO ACHIEVE ANY FINAL AGREEMENT. IT WAS UNFORTUNATE, IN HIS VIEW, THAT NAIROBI RESOLUTION SPECIFICALLY REQUIRED MARCH MEETING. SHIHATA ALSO THOUGHT IS A MISTAKE THAT UNCTAD SECRETARIAT HAD PRESENTED PAPER SHOWING FIVE-YEAR FINANCIAL REQUIREMENTS FOR COMMON FUND OF \$6 BILLION - A FIGURE WHICH WAS BOUND TO SCARE MANY. HE BELIEVED THAT IT WOULD TAKE YEARS TO
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CONCLUDE STOCKING AGREEMENTS FOR THE "CORE" COMMODITIES. CONSEQUENTLY, COMMON FUND'S FINANCIAL NEEDS, INITIALLY AT LEAST, WOULD BE CONSIDURABLY LOWER, AND HE CITED THE PROPOSED \$1 BILLION IN PAID-IN CAPITAL AS A REALISTIC STARTING FIGURE. SHIHATA SAID HE WOULD BE SUBMITTING A REPORT ON COMMON FUND TO MEETING OF OPEC FINANCE MINISTERS HERE IN VIENNA BEGINNING FEBRUARY 28. HE ASKED EMBOFF WHAT POSITION NEW US ADMINISTRATION WOULD TAKE ON COMMON FUND. EMBOFF UNABLE TO ENLIGHTEN SHIHATA ON THIS POINT, BUT WE HAVE PROVIDED HIM WITH COPY OF HORMATS BACKGROUNDER ON US INTERNATIONAL ECONOMIC POLICY. FOR HIS PART, SHIHATA WAS RETICENT TO TALK ABOUT WHAT HE WOULD RECOMMEND TO MINISTERS ON COMMON FUND. HE DID, HOWEVER, INDICATE A CERTAIN LACK OF ENTHUSIASM FOR IT BY NOTING THAT MANY DCS AND RICHER LDCS WERE MAJOR PRIMARY PRODUCT PRODUCERS. ACCORDINGLY, HE DID NOT SEE COMMON FUND AS BEST MEANS FOR HELPING NEEDIEST LDCS.

3. NEW CONTRIBUTIONS TO OPEC SPECIAL FUND. EMBOFF
MENTIONED THAT THERE HAD BEEN SOME CONFLICTING REPORTS
CONCERNING AMOUNT OF INCREASE IN CONTRIBUTIONS TO
SPECIAL FUND DECIDED ON AT DOHA. SHIHATA RESPONDED

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FEA-01 /156 W

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THAT TOTAL AGREED UPON WAS \$800 MILLION TO BE APPORTIONED ON SAME BASIS AS ORIGINAL CONTRIBUTIONS. HE ADDED, HOWEVER, THAT GIVEN SENSITIVITIES OF FINANCE MINISTERS CONCERNING THEIR PREROGATIVES, HE WAS NOT SAYING ANYTHING ABOUT THE INCREASE UNTIL APPROVED BY THEM HOPEFULLY AT THEIR UPCOMING MEETING. SHIHATA SAID HE WAS DRAFTING PLAN FOR USING THESE ADDITIONAL RESOURCES BUT WOULD NOT ELABORATE ON WHAT HE WOULD RECOMMEND.

4. BALANCE OF PAYMENTS SUPPORT LOANS. SHIHATA SAID THAT BALANCE OF PAYMENTS LOANS TO MOZAMBIQUE, BENIN, AND EL SALVADOR WOULD BE SIGNED IN NEAR FUTURE. TWO OTHER COUNTRIES HAD BEEN OFFERED LOANS, SHIHATA CONTINUED, BUT ONE HAD NEVER RESPONDED AND THE OTHER REPLIED IT WAS NOT INTERESTED. SHIHATA RELATED SOME OF HIS FRUSTRATIONS IN DEALING WITH LDC BUREAUCRACIES ON LOAN AGREEMENTS. THE MOZAMBIQUE DELEGATION, FOR EXAMPLE, HAD SHOWN UP ON WRONG DATE, AND THEN WITHOUT PROPER AUTHORIZATION; CONSEQUENTLY SIGNING HAD HAD TO BE DELAYED. HE ALSO PREDICTED THAT A NUMBER OF LDCS WOULD BE SLOW IN TAKING NECESSARY DOMESTIC STEPS -- SUCH AS SETTING UP AN OPEC SPECIAL FUND ACCOUNT IN THE CENTRAL BANK -- TO PERMIT DISBURSEMENT OF LOANS. IN THE MEANTIME, SHIHATA REMARKED, SPECIAL FUND HAD TO KEEP THESE FUNDS IN "CALL" ACCOUNTS WHICH EARNED VERY LITTLE INTEREST. ANOTHER DISAPPOINTMENT FOR SHIHATA WAS APPARENT ABSENCE OF ANY AUSTRIAN OR OTHER EUROPEAN PRESS COVERAGE OF LOAN AGREEMENTS SIGNED WITH 10 LDCS ON FEBRUARY 3 AND 4.

5. DEVELOPMENT PROJECT LOANS. SHIHATA REPORTED THAT HE WILL SHORTLY SUBMIT A PLAN TO THE FUND'S GOVERNING
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COMMITTEE PROPOSING LENDING CRITERIA FOR DEVELOPMENT PROJECT CREDITS. HE SAID THAT IT HAD BEEN QUITE EASY TO ALLOCATE BALANCE OF PAYMENTS SUPPORT LOANS TO THE 45 UN-DESIGNATED "MOST SERIOUSLY AFFECTED" LDCS. DEVELOPING EQUITABLE CRITERIA FOR PROJECT LOANS, HE WENT ON, HAD BEEN MUCH MORE DIFFICULT, AND THERE WERE

BOUND TO BE COMPLAINTS AS TO WHY ONE COUNTRY GOT A LOAN AND ANOTHER DIDN'T. SHIHATA SAID THAT HE HOPED TO BEGIN SIGNING PROJECT LOAN AGREEMENTS DURING THE FIRST HALF OF THIS YEAR.

6. TWO-TIER PRICING SYSTEM. NOTING THAT SAUDIS HAD BEEN "TALKING TOUGH", SHIHATA OPINED THAT THERE WOULD BE NO QUICK RESOLUTION OF IMPASSE WHICH HAD BROUGHT ABOUT TWO-TIER OIL PRICING SYSTEM. AS LONG AS THIS SITUATION PREVAILED, HE DID NOT FORESEE AN EXTRAORDINARY MEETING OF THE OIL MINISTERS. SHIHATA SPOKE CRITICALLY OF SAUDI ACTION AND TERMED IT A POLITICAL MISTAKE. IT WOULD HAVE BEEN BETTER, HE RASONED, FOR SAUDIS TO HAVE RAISED PRICES 10 PERCENT ALONG WITH THE OTHERS BUT WITH AN OFFER TO CUT BACK TO 5 PERCENT IN CASE REAL PROGRESS WAS MADE ON THE ARAB-ISRAELI PROBLEM. THEN IF NO PROGRESS WERE MADE -- AND SHIHATA VERY MUCH FEARED THIS WOULD BE THE CASE -- SAUDIS WOULDN'T HAVE TO DO ANYTHING. IF HIS ASSIESSMENT WERE CORRECT, SHIHATA SPECULATED, SAUDIS WOULD HAVE TO ADMIT A DIPLOMATIC DEFEAT AND THEN BE ATTACKED WHEN THEY RAISED PRICES.

7. FOR RANGOON: SHIHATA CONFIRMED THAT SPECIAL FUND BALANCE OF PAYMENTS LOAN TO BURMA WAS \$2.25 MILLION AND NOT "\$2.5 MILLION AS REPORTED RANGOON 361.MEEHAN

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Message Attributes

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Disposition Date: 22 May 2009
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